

# NRRIT

## National Railroad Retirement Investment Trust

October 2002

### QUARTERLY UPDATE FOR THE PERIOD ENDING SEPTEMBER 30, 2002

#### Background

##### In General

The National Railroad Retirement Investment Trust (NRRIT, or “the Trust”) was established pursuant to Section 105 of the Railroad Retirement and Survivors' Improvement Act of 2001 (the “Act”) that was signed into law on December 21, 2001. The Act set February 1, 2002 as the date that the Trust was to become effective.

The sole purpose of the Trust is to manage and invest Railroad Retirement assets. The Act authorizes the Trust to invest the assets of the Railroad Retirement Account in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the Act, investment of Railroad Retirement Account assets was limited to U.S. government securities.

The Trust has no powers or authority over the administration of benefits under Railroad Retirement. Responsibility for administering the railroad retirement program, including eligibility determinations and the calculation of beneficiary payments, remains with the Railroad Retirement Board (RRB). The Trust is a tax-exempt entity independent from the federal government. It is domiciled in and subject to the laws of the District of Columbia. The RRB, by contrast, remains a federal agency.

##### Board of Trustees

The Trust's Board of Trustees (the “Board”) is comprised of seven trustees, three selected by railroad labor unions and three by railroad companies. The seventh Trustee is an independent Trustee selected by the other six Trustees.

The Trustees' terms are for three years and are staggered. The Act provides that on the initial Board, one each of the Labor and Management members would be selected for three year terms, one each for two year terms, and one each for a one year term. Thereafter, all terms are three years. The independent Trustee's initial and succeeding terms are three years.

---

#### **TRUSTEES:**

##### Chair

Joel Parker  
International Vice President  
Transportation Communications  
International Union

George J. Francisco, Jr.  
President  
SEIU, National Conference of  
Firemen and Oilers

Bernie Gutschewski  
Vice President-Taxes  
Union Pacific Corporation

James A. Hixon  
Senior Vice President-Administration  
Norfolk Southern Corporation

Thomas N. Hund  
Executive Vice President & CFO  
Burlington Northern Santa Fe Corporation

Dan E. Johnson  
General Secretary-Treasurer  
United Transportation Union

John W. MacMurray  
Independent Trustee

# NRRIT

## National Railroad Retirement Investment Trust

Under the Act, the Trustees are required to discharge their duties solely in the interest of the RRB, and through it, the participants and beneficiaries of the programs funded under the Railroad Retirement Act. The Trustees are subject to fiduciary rules similar to those of ERISA.

To carry out its mandate, the Board is authorized to make rules to govern its operations, to employ professional staff, and to contract with outside advisors to provide legal, accounting, investment advisory or other services necessary for the proper administration of the Trust. Administrative expenses of the Trust are to be paid out of Trust assets.

### Reporting

Under the Act, the financial statements of the Trust are required to be audited annually by an independent public accountant. In addition, the Trust must submit an annual report to Congress on its operations, including a statement of financial position, statement of cash flows, a statement on internal accounting and administrative control systems, the independent auditor's report, and any other information necessary to inform Congress about the operations and financial condition of the Trust. A copy of the annual report must also be submitted to the President, the RRB, and the Director of the Office of Management and Budget.

### Establishment of the Trust

Upon enactment of the legislation, the rail labor unions selected the following Trustees: Joel Parker, International Vice President, Transportation Communications Union, for the three-year term; Dan Johnson, General Secretary and Treasurer, United Transportation Union, for the two-year term; and George Francisco, Jr., President of the National Conference of Firemen and Oilers - SEIU, for the one-year term.

The railroad carriers selected the following Trustees: Thomas Hund, Executive Vice President and Chief Financial Officer, Burlington Northern Santa Fe, for the three-year term; James Hixon, Senior Vice President-Administration, Norfolk Southern Corporation, for the two-year term; and Bernie Gutschewski, Vice President-Taxes, Union Pacific Corporation, for the one-year term.

The Trust officially began business on February 1, 2002. On that day the Board met and unanimously elected Joel Parker as Chairman. Since then, the Board has met approximately thirty times, either in one or two day meetings, and has held numerous conference calls between meetings.

The challenge of transforming an approximately \$20 billion pension fund from a government administered program to a private investment trust is perhaps unprecedented in the history of U.S. pension funds. On its first day of operation, the NRRIT was the fiftieth largest pension fund in the United States, including all public, corporate, and Taft-Hartley plans.<sup>1</sup> Yet,

---

<sup>1</sup> There are only two Taft-Hartley plans that are larger in terms of assets.

# NRRIT

## National Railroad Retirement Investment Trust

the NRRIT's statutory authority to carry out its functions did not become effective until that same day. Thus, before it could begin to invest any assets, the Board has had to recruit an independent trustee, hire a chief investment officer, establish an administrative structure and adopt formal investment guidelines. These tasks are now substantially complete.

### Key Board Actions to Date

The Trustees took the steps to establish an investment apparatus in a prudent and deliberative manner. A summary of the most important actions taken to date follows:

- *Consultations*

The Trustees met with the leaders of the largest corporate and Taft-Hartley pension funds in the United States, soliciting their advice on structure, investment philosophies, and implementation strategies.

- *Board Organization*

The Board adopted governing By-Laws, and several policy guidelines on internal administrative issues. Subcommittees were established to handle administrative, audit, and investment issues.

- *Search Firm Retained*

The Trust retained Russell Reynolds Associates, a leading search firm, to assist with the selection of the independent Trustee and a Chief Investment Officer.

- *Independent Trustee Selected*

After reviewing 29 qualified candidates and interviewing several of the most qualified for the seventh Trustee position, the Board unanimously selected John MacMurray as the independent Trustee. Mr. MacMurray assumed his position at the May 15 Board meeting. His term runs until February 1, 2005. Mr. MacMurray headed the RJR Nabisco pension fund from 1988 through 1998. In this capacity, he was responsible for all aspects of pension fund and savings plan investments with assets totaling more than \$6 billion. With approximately 30 years of experience, Mr. MacMurray is accomplished at managing large pools of pension assets across a broad array of asset classes. He began his pension fund career in 1974 at Bell Telephone Company of Philadelphia, and later served as Director of Equity Investments for Bell Atlantic. In addition to his full-time professional responsibilities, Mr. MacMurray has served on the investment committees of several institutions. He served a six year term on the Board of Pensions of the Presbyterian Church USA from 1991 through 1997. At the time of his selection as Independent Trustee, he was serving on the endowment committee of Lehigh University, and the foundation committee of his church. He has also served in the public arena as a Director of the Philadelphia Regional Transit System, SEPTA (1976 to 1981), and as Chairman of its Board in 1978. From 1982 through 1987, he served as an elected township commissioner in

# NRRIT

## National Railroad Retirement Investment Trust

Haverford Township, a suburb of Philadelphia. As a retired investment professional, Mr. MacMurray has provided a wealth of knowledge and experience to the Board.

- *Requests for Proposals Issued*

RFP's were developed and issued for an Asset Allocation-Liability Modeling (ALM) Study; independent auditor, custodial institution; investment advisor and investment management firms.

- *Accounting Firm Selected*

After reviewing proposals from four major national accounting firms and conducting follow-up interviews, the Trustees selected Deloitte & Touche as the NRRIT's independent auditor in June 2002.

- *Custodial Institution Selected*

After a intensive search process headed by Mr. MacMurray, which included on-site visits, NRRIT selected Northern Trust, one of the major U.S. custodial banks, the Trust's master custodial institution in July, 2002. Final contract negotiations were concluded in mid-August.

- *Chief Investment Officer Selected*

Following the review of numerous candidate applications and interviews with the top eight candidates, Enos T. Throop, Jr. was hired effective August 1 as the Trust's first Chief Investment Officer. Mr. Throop brings to this position more than 25 years of investment experience. He comes to the Trust directly from the United Mine Workers of America Health and Retirement Funds, based in Washington, D.C. He joined the UMWA Funds in 1989, and served as Director of Investments since 1997. In this capacity, he was responsible for investing more than \$7 billion in plan assets. Before joining the UMWA funds, Mr. Throop directed equity investments for the State of Maryland's Investment Agency. He earned his Chartered Financial Analyst (CFA) designation in 1988, and holds undergraduate and MBA degrees from Hofstra University.

- *Investment Advisor Selection Process*

Several interviews have been held with leading investment advisor firms. The Trustees decided to first hire a Chief Investment Officer, who then would be accountable to the Trustees for assessing to what extent outside investment advisors would be needed to complement the work of in-house professional staff.

- *Asset-Liability/ Asset Allocation Model Adopted*

After a thorough interview and review process, Watson Wyatt was selected to perform the ALM study. The ALM study process lasted several months, with constant feedback and input from the Trustees. The Trustees unanimously adopted a

# NRRIT

## National Railroad Retirement Investment Trust

final ALM study in August 2002. The ALM study sets the overall diversification targets for the broad asset classes: equity and fixed income, as well as targets for sub-asset classes such as domestic and international equity; private equity; and investment grade and high yield bonds. No investments could be made until an ALM study was adopted and the Trustees adopted formal Investment Guidelines.

- *Investment Guidelines Adopted*

With completion of the ALM study, the Trustees were in a position to develop a specific set of investment guidelines for the Trust. After considerable review, the Trustees formally adopted Investment Guidelines for the Trust on August 21, 2002.

Throughout this period, the NRRIT has maintained regular communication with the RRB; has worked with the RRB, the Department of Treasury, and the Office of Management and Budget to develop a Memorandum of Understanding to establish policies and procedure for transfers of funds and related reporting requirements. NRRIT has conducted informal briefings for the staffs of the congressional committees with jurisdiction to keep them informed of the Trust's progress.

With the selection of a Independent Trustee, the completion of the asset-liability study, the hiring of a Chief Investment Officer, the retention of a custodial institution, and its first investment manager, the Trust began the diversification of investments contemplated by the Act during the month of September 2002.